BEFORE THE

ILLINOIS COMMERCE COMMISSION

IN THE MATTER OF:)
)
GAS POLICY COMMITTEE)
MEETING)

Chicago, Illinois

October 29, 2002

Met, pursuant to notice at 1:30 o'clock p.m.

BEFORE:

THE COMMISSION EN BANC

APPEARANCES:

MR. CHRISTOPHER B. McGILL,
Managing Director, Policy Analysis,
representing American Gas Assocation;

MR. WILLIAM MORROW,
Executive Vice President,
representing Peoples Gas & Light;

MR. TED LENART,
Assistant Vice President, Supply Operations,
representing Nicor Gas;

APPEARANCES (continued):

MR. SHAWN SHUKAR,
Vice President, Energy Supply Management,
Illinois Power;

MR. SCOTT GLAESER,
Manager, Gas Supply and Transport,
Ameren Energy Fuels & Services.

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I N D E X

COMMISSIONER KRETSCHMER: This is the regularly scheduled Special Meeting of the Illinois Commerce Commission pursuant to prior notice of the applicable statute. Today Commissioners present are Commissioner Hurley, Commissioner Kretschmer, and Chairman Wright, and we will be joined by Commissioner Squires very shortly.

We have a meeting today that I think is very timely. The weather is getting colder. We are going to hit winter, and I learned something this week in preparation for this meeting. I have been reading a lot of the trade papers and I found out if you have a position on the availability of gas or the price of gas, you can get an expert to agree with you no matter what your opinion is.

(Laughter.)

They're all over the map, and so we are going to find out today from six experts who really know what's going on, what's going to happen, but they told me we don't guarantee it either, so we are certainly going to learn a lot more about it, and I think it's an important topic.

We know that there's great concern about the price of gas. People are thinking back to two years ago and they remember what happened, so this is an important topic.

Unless there's a reason to change, I'm going to follow the order that is listed on the agenda. That means that Chris McGill from the AGA will begin, followed by William Morrow from Peoples, Ted Lenart from Nicor, Shawn Shukar from Illinois Power, and Scott Glaeser from Ameren.

Has there been any switching that I don't know about of the speakers?

(No response.)

These speakers, I will tell you, are very nice. You will notice that there's not a power point in the group. Nobody is going to lower the lights. There are no slides that we can't see because of the lighting. They are all going to make presentations and I think there are copies for everybody in the audience. Do we have copies?

COMMISSIONER SQUIRES: Commissioner Kretschmer --

COMMISSIONER KRETSCHMER: Yes.

COMMISSIONER SQUIRES: -- I'm here now. Thank you.

COMMISSIONER KRETSCHMER: Thank you.

If you don't have copies and you really want somebody's speech or a copy of what the remarks are, let me know and we will make sure you get it.

So we will start out with Chris McGill from American Gas Association.

MR. McGILL: Close enough.

COMMISSIONER KRETSCHMER: Close enough.

PRESENTATION

BY

MR. McGILL:

Thank you for having me here this afternoon to speak perhaps a little about the national outlook and national perspective for natural gas markets.

Prior to the individual companies talking, I'll get right into it very quickly and, hopefully move along very quickly, take you to the second slide that looks at what the key variables point to for this coming winter heating season in summary.

As has already been mentioned, we have gone nationally certainly through two extraordinary periods of time, a very early cold to the 2000-2001 winter heating season followed by the warmth of last winter's heating season nationally. And, as you go through these key factors that we look at, you can see really what has happened over those last two seasons and what we expect for this winter's heating season.

Weather, economic activity, oil prices, the condition of storage, drilling, all of those things impact what the price and the availability of gas will be in the market.

Certainly 2000-2001, as you in hindsight go through all of those factors, very cold weather, a robust economy, certainly compared to what it is today, higher oil prices, a very low storage position in relative terms and relatively low drilling, in hindsight looking back, all of those things pointed to higher prices for that winter heating season.

The following winter heating season was essentially the opposite in virtually every way with weather, economic activity, even something as tangible as a storage position was significantly different.

This year there is somewhat of a mixed bag, as you said. I think accurately you can find someone to say something about the market and to try to support it.

As we look at the weather going forward, particularly in the northern tier of the country and the midwest, what I have heard from the weather prognosticators are the El Nino effect should mean a warmer winter this year. Who knew that six years ago or six months ago? And is it going to pan out? Who knows.

Economic activity's a little better than it was last year, certainly not as robust as it was in 2000 and 2001, and certainly that economic activity does have a significant impact on gas demand.

Oil prices with the potential for war with Iraq certainly they can go up and nationally certainly gas prices tend to follow.

Storage position is very strong. We are currently, even compared to last year, 3 percent ahead of storage levels last year, 7 percent ahead of the five-year average, and certainly when you think about prices in the marketplace over the long term during the winter heating season, that storage position should have some dampening impact on the price volatility.

Drilling nationally is not as strong as it was at the peak in 2001; however, it is still very strong in relative terms, so, again, a bit of a mixed bag there, too.

Going to the next slide very quickly then, what is being forecast, and everybody talks about prices first, well, I tend to use the Energy Information Administration Data, and I use them because they are as wrong as everybody else is all the time, so this is what they're saying right now. That's only what this is is a slice-in-time view. They're looking at winter average prices in the 3-to-$5 range as being their 95 percent band of certainty. I don't have any reason to argue with that.

What AGA has been saying, that is that we see the volatility in the marketplace today as something that is going to be with us for a period of time, even three-to-five years, it's not something that's going to go away immediately.

Certainly the reality of the weather could have an impact on that, but certainly for our company's feeling with acquiring gas supplies volatility is something that they are dealing with and we view as something that they're going to continue to deal with.

The cartoon on the following slide talks to that somewhat. My remarks today are going to be looking at the supply side equation and not so much with the demand side, so I would ask you to go to the next slide, which is really the crux of the supply issue today and that is looking at lower 48 gas production versus dry gas productive capability (sic)

Now we are all aware that gas supplies are diverse, that is to say we get gas from Canada. We get gas through international LNG trade. Main companies have propane air facilities for peaking, but still 85 percent of what we consume nationally comes from domestic production, so you look at domestic production as being a key driver for the price issue.

If you look at that graphic, what it's showing you is the actual production in kind of the Fuchsia color, or purple color, or whatever that is, and solid blue line is productive capability (sic).

The $2 gas price paradigm we experienced in the 1990s was essentially due to what you see in the left-hand half of that slide and that is we had slightly more productive capability in the market than we had actual production, and that's a good deal for consumers. Since -- and I could actually make an argument going back to mid-1997, but certainly, since two years ago basically, late 1999, 2000, most analysts looked at production capability curves and actual production curves in this country and they give you this type of visual, and that is that they practically overlay one another, that is to say we are producing essentially a hundred percent of what is able to be produced in this country.

What that means is that if there are any changes in demand for natural gas, that if there are any slight changes in the supply picture for natural gas, it tends to move price significantly. Everything happening on that margin and that margin being so tight is something that has had a great deal of impact on the volatility we see in gas prices today.

Now even though the curves -- the productive capability and the production curves are very close to one another, I would point out that they're moving up.

There is a lot of talk periodically about loss of production capability, what's happening in the fields and wells that are being drilled today compared to the past, and although the production capability does change, it goes up and down, it doesn't normally change more than a few percentage points per year, that is to the positive or to the negative, so the resource base can support a growing production of natural gas in this country, but, of course, the economics of doing business in this type of environment are very difficult and certainly the volativity we see today is reflected in this.

The next slide acknowledges the fact that the demand components of the marketplace for many areas of the country is changing. Electric generation -- our natural gas into electric generation is part of that change.

The next slide shows that part of the challenge of making that change has been met by domestic producers. As much as we hear information about declining production in this country, the fact is that really over the last decade the reserves' position in this country has grown. If this national gas market is going to grow to 30 trillion cubic feet in the next 10 to 15 years, we have to continue to see this.

The oil and gas business is not a real-time business if you don't just put something in and get it back out immediately. It takes time to develop, and if we are going to grow productivity in this country, the reserves picture needs to continue to grow, and it has been over the last decade. We now have pre-reserves in this country of over a hundred trillion cubic feet compared to earlier in the decade -- in the decade of the 90s of reserves basically in the mid-160s, so that's a very positive thing.

How those reserves are converted into production is a little bit of a different story and the resource base that supports those reserves is changing also, both of those being very dynamic.

The cartoon with the glasses that I have shown you there is just to make a point, and that is we have relatively mature producing areas in this country. When we have the kind of volatility we have in the marketplace today, something that the local distribution companies have difficulty dealing with on behalf of their customers, is a challenge for the producers, too, and when you don't know what your gas price is going to be, producers take fewer risks, and and what they tend to do is drill in places where they already have investment and so you end up drilling in known fields. You don't discover a lot of new gas. Some does come on, but we are putting a great deal of stress on those older fields.

The next slide shows you an example of that. You do exhaust the potential to develop oil and gas from specific places as time goes forward, and this is a chart that shows the shallow water offshore. It shows that there has been, since the early 90s, a relatively steady amount of wells drilled, about 400 wells on a quarterly basis annualized, and it's grown a little bit, but you can see the production curve is declining. That is one of the areas in the country where unless there is some significant discoveries deeper or something that happens very significantly with technology, you are going to continue to see that area decline and it's probably not going to be turned around.

Now there are areas -- I have stuck to the offshore here -- where the opposite is happening. Actually, the investment in drilling, the investment on the supply side of the equation is growing production into the marketplace.

The deep water offshore, the second in the next slide, is an area where that is happening. You can look at cold bed methane resources, drilling in newer areas of the Rocky Mountains, as all being places where the production curve is actually increasing, not decreasing.

Again, as much as we hear about the fall off of supply capability in this country, again, just getting the EIA statistics for the Year 2001, 2001 over 2000, we have production increase and we have had production increases six out of the last eight years. We have had reserve increases eight of the last ten years, so the supply picture is not as grim as it is sometimes painted to be, however, marginally the amount of gas that is being produced compared to what that production capability is is very, very tight.

The other thing that's happening nationally is we are beginning to move from the traditional ENP areas that are shown on the next slide in red and light green to areas that are less developed, and those are shown in the darker green, and the fact is that we are going to have to continue this transition of migrating geographically where gas is produced.

The following slide showing the lower 48 states and some of the moratoria area associated with the lower 48 point to the fact that if we are going to migrate our ability to produce, what is really a very vast diverse North American resource base, we are going to have to go to someplace where we haven't drilled before, and there are political issues, environmental issues, many issues that need to be debated for that.

AGA has recently completed or the American Gas Foundation actually has taken a look at natural gas supply and is in the process of publishing documentation on that and, in fact, states in the supply study for the lower 48 that if some of the areas that are currently inaccessible to drilling today are not opened up, we can pretty much look at growth in natural gas in this country, growth and natural gas production being over by the Year 2015, that it is imperative that we get to places, different places to drill and to develop the gas resources as is the case in Canada also.

Now that doesn't mean that there's not going to be any gas in 2015. It means that are reaching that 30 Bcf is going to be very difficult without some extraordinary measures and without going to gas supplies in the amounts that we have in the

past without making changes, for example, significantly increasing the amount of LNG we import as opposed to domestic gas production.

The resource base in the United States, and, of course, the market really that we deal with is an international market in that certainly the gas resource base is very strong in Canada also. The Canadian production situation, many of the environmental situations, resource-based issues are reflective of what is happening here in the United States. There have been new discoveries in Canada, as well as some resource depletion in Canada, they're looking to move to.

I spoke briefly about LNG. Currently we provide -- natural gas provides us with about one percent of our pipeline supplies nationally. That could be significantly more in the future.

The current facilities, even in a good year that we have in the United States, are only used, well, about 25 percent of their capacity, so there's still significant capacity with our existing facilities and there are plans potentially to build more.

With respect to price, I would say that when we have $2 gas at the well head, these things aren't happening. When we're talking about 3 to $4 gas at the well head, then LNG projects come out of the woodwork and alternative gas supplies also tends to come out of the woodwork also.

The next slide is looking, of course, at the Alaska gas pipeline, again trying to cover all of our basis for gas supply nationally. Getting gas from Alaska has been with us for 20 years, 25 years, hasn't happened yet. Issues about pricing the gas are still there with us. Volatility does not help trying to secure a pipeline from Alaska, but certainly, as I stated before, when you look at the national supply picture and you look at the domestic production, I said before, that you can't really change that, and it doesn't change much one annual period over another, a percent or two here or there, but one way you can change that is to bring a new line pipeline into the area, and you are certainly familiar with that.

Delivering four to six BCF into the

Chicago market or some other market in the northern tier of the United States would have a significant impact on gas supplies in that area and for the lower 48 in general, but certainly we are not there yet.

The following slide this doesn't come from AGA. This comes from a number of producers that we have dealt with before. When we talk about these new supplies of gas, gas that we can see in the future, again, going back to two years ago and looking at the peak prices of $10 or more, that's not required.

Whenever I hear anybody talking about a new LNG project or really virtually any supply project, again, we are looking at natural gas prices in the future that are in the 3 to $4 range, not $10.

So very quickly before I move onto the individual companies, AGA's view of the current market is for the next three-to-five years, for the short term, frankly, there's not that much we can do, not anything that's really extraordinary. You are talking about bringing on additional LNG supplies. You are talking about vagaries of the drilling business and whether you are on an run and up cycle or down cycle. The price elements is there, Canadian imports, dual fuel generation, where possible, increased production from the deep water from some of the -- from newer places, those are things that can impact a marketplace in the next three-to-five years, but the more significant solutions certainly take time and we see the volatility and the tightrope on the supply side of the equation really going forward for the next three-to-five years.

The longer term things are really, from a 40,000 foot view anyway, again, access to the resource base, access to developing infrastructure and looking at new markets, like electric generation, for example, making sure that all of the alternatives are there for generating electricity in the future.

Is this a forum for questions, do we want to move onto the next person immediately?

COMMISSIONER KRETSCHMER: What is the choice of the Commission? Do you want to ask questions of each speaker or at the end?

CHAIRMAN WRIGHT: It's up to you.

COMMISSIONER KRETSCHMER: Why don't we wait until all the speakers are finished and compile our questions.

MR. McGILL: I'm done.

COMMISSIONER KRETSCHMER: It was a very good overview of the national market.

Now we are going to --

MR. McGILL: Thank you.

COMMISSIONER KRETSCHMER: -- we are going to talk about what's happening in Illinois and really continue the discussion on a company-by-company basis.

Our first speaker is William Morrow. He's the Executive Vice President from Peoples Gas and Light, and we are going to hear from you now.

PRESENTATION

BY

MR. MORROW:

Thank you. Good afternoon and thank you again for the opportunity to address the Commission today. I will be presenting an overview of Peoples Energy's winter supply plan, as well as providing some highlights of our utility price protection program

that's in place for this winter, and joining me at the table today is Mr. Ron Sierra, our Vice President of Corporate Communications, who's going to expand and explain our customer awareness activities, as well as discuss some of the community outreach programs, both which are very important for our service territories.

I'm representing Peoples Energy, which is comprised of two utilities, Peoples Gas and North Shore. For this presentation, I'm going to more specifically address Peoples Gas and will highlight any significant changes that might apply to North Shore, but the information generally is the same as we operate both companies very closely together.

Key to our supply planning process has been to prepare for a wide range of conditions. Certainly the first, and foremost, is weather and trying to deal with the variability of weather.

As Chris has already pointed out, most of the forecasts are calling for an early cold spell followed by the El Nino winter, meaning some warm spell, but for every person that announces that that's their position, again, there's a competing position out there it may be the coldest winter on record

One of our tasks then is trying to address not only the normal winter, which is how we create our plan, but also preparing for the extremes. The warm weather scenarios are just as difficult to operate in as the cold weather extremes. In our case, just the difference between a warm and a normal winter could be anywhere from plus or minus 20 percent of sendout increase or purchases that we need to make.

We also have to be aware and plan around the possibility of some supply disruptions. Although it hasn't happened in the near past, there's always that possibility that a supply-related incident could occur, as well as planning for pipeline failures in the event something catastrophic may happen.

Our company doesn't utilize storage extensively in meeting both winter demands as well as meeting our balancing requirements. This year our storage refill plan is completely on schedule and is expected to hit our December 1 target, which in our case is about 95 percent of full. We don't completely fill our storage because there happens to be an

overlap of services, some may begin to withdraw earlier while you are rejecting than others. We are never at a hundred percent level.

This year we'll also have to adapt to a change in energy environment. This year's plan we have had to deal with many new trading partners. All of you are aware of the collapse of many of the marketing companies we use to do business with extensively, and kind of looking back reflecting on the list of our trading partners or, let's say, the top 25 marketers, who were in existence last year at this time, literally ten of the majors are either gone out of business, stopped trading natural gas, or reduced their operations significantly. That's played a major role in restructuring our portfolio for the year.

While we don't anticipate any supply storages or lack of companies to do business with, it is beginning to show some limitations on options that we have had available to us in the past as the market has much less buyers than sellers at the city gate.

We have also heard kind of some rumblings of another bad term I don't like to be reminded of and that is the reintroduction of items like reservation charges. We are starting to hear people float that concept, something we have not seen in the last several years, but many suppliers are starting to look for a little greater reward for the promise of their supply. That's something we haven't experienced for quite sometimes, and it's always been important but certainly with our counterparties has gained significant promise this year and are sorting out our available suppliers, but a very early conclusion is that, of course, all of our customers we expect to receive uninterrupted gas service this winter. We don't see anything on the horizon that's going to cause us any concern with meeting this supply or requirements of our territory.

Again, our companies are separate and distinct territories. We don't have any common facilities that serve the two, but our gas supply planning groups are combined. We often negotiate contracts together, which is for the benefit of both companies, although some of the contract terms can be different, as I'll discuss in a second. North Shore has fewer options than Peoples does due to its pipeline interconnections.

We do have the luxury in this state, particularly in the northern half of Illinois, of having eight interstate pipelines connecting to our territory. Six of them deliver directly into Peoples' system and two into North Shore. These six pipeline choices provide us the opportunity to diversify our supply sources.

With our six pipelines, we have access to every major supply basin in western Canada, as well as the Continental United States. We also have utilized storage/peaking services, company-owned and leased, and we have the ability to diversify our purchases using both term purchases across seasons and on an annual basis supplemented by spot purchases, and, of course, provided we can find credit-worthy parties, we also are buyers at the city gate.

Another point is we also rely on very heavily on our customers for delivering gas that they are responsible for. Those who choose to only have us distribute their gas and not supply their gas, it is a key component, as I'll show in a couple of slides, their role in meeting the supply and demand for the winter.

To kind of get caught up on slides, we are on Page 7 of Peoples' presentation. This is a simple pie chart of our peak day supply and, again, outside of the overall gross send-out number, North Shore is very similar. Sixty-three percent of our peak day supply needs are met by storage, a further breakdown of that 63, 41 percent comes from our company-owned assets and the remaining 22 comes from leased assets, which we buy from pipelines in the area. Twenty-four percent of our peak day supply is met by floating gas supplies to our own purchases and 13 percent of what we expect our customers to bring on on those given days.

If I move -- I don't have a graph for this, but if I take that down to kind of the winter season, our storage number reduces to about 26 percent, so, of course, not taking those peak days into account, normal winter days we have much more

flowing supply making up that delivery mix and a little less storage.

Moving on to an annual supply basis, and our purchases are made up 46 percent in terms of supply, 13 percent from spot market, and 41 percent on an annual basis again comes from our customer gas. We count on that showing upon every day of the year to meet our needs.

We also try to incorporate a diverse mix of pricing options into what we buy utilizing published index prices, both first of the month and daily prices. We do try to mix those up month to month, as well as we have fixed prices, which I'll discuss in a moment about our price protection program using NYMEX, over-the-counter swaps, caps and collars to try to provide some certainty in pricing for our customers.

Something new this year for us is our elevated response to security issues that are facing this nation. We do have a mutual aid agreement in place between Peoples, North Shore, and Nicor Gas with some participating pipeline companies, Natural Gas

Pipeline, as well as the northern border. The official document is between Peoples, NIGAS, and it contemplates a number of joint activities, in the event mutual aid is necessary, those being addressing supply emergencies, as well as labor and other piping material shortages.

We will be planning in the near future some comprehensive drills to try to test our disaster planning. Those will be unannounced, but we'll have some official documentation on the results of those, but, again, our actions were similar to the actions we took to in response to Y2K issues, and that is testing all our coordination and communication efforts in tabletop exercises.

Moving onto our Utility Price Protection Program, our program has been designed to try to help mitigate the effects of price volatility and to protect customers from severe price spikes in the marketplace. In order to do so, we have to size it appropriately, not oversize it and not undersize it.

This winter, of Peoples and North Shore, 50 to 60 percent of our natural winter purchases have been hedged at, as of today, considerably lower than current lower market prices both forecast for the winter and what's existing today.

Storage also plays a large role. As I mentioned earlier, 26 percent of our seasonal load comes from storage. Storage also has a natural tendency to flatten prices.

As we typically build storage in the summer months, in our case we have also hedged a good portion of that storage as well, so all of this is intended to dampen the prices, not to achieve necessarily the lowest prices.

We cannot predict where the weather's going to go and what the future demands are going to be in the marketplace or where prices even will go, but the plan we have in place today should have a considerable effect in dampening the prices and eliminating some of that volatility for our customers, and our plan is flexible enough to allow us to adopt throughout the year should any unforeseen events take place.

That concludes some of my remarks

on the supply plan. Again, I would like to introduce Ron Sierra, our Vice President of Corporate Communications, who's going to take this a step further and explain where we are headed with some of the customer communication issues.

MR. SIERRA: Thanks, Bill.

PRESENTATION

BY

MR. SIERRA:

In early September, Peoples Energy launched an extensive outreach campaign to our customers to help prepare them for this winter once we knew that the forecast for gas bills is going to be up.

Our campaign is designed to encourage all of our customers to prepare two or three ways by conserving energy, by making sure that they are on a payment plan, if they need one, and by seeking all the financial assistance that is available to them.

The three primary messages of our campaign have been to pay your outstanding balances at Peoples Gas or to enter into payment arrangements with us, if you are having a problem with that, again, to get all the financial assistance that you are eligible for and to conserve energy to help you save on your gas bill.

The campaign includes paid newspaper and radio advertisements in both English and Spanish and, in addition to that, we supplemented on the TV side by doing numerous television interviews, both for morning show outlets and on news and programs on TV. We distributed a number of releases, fact sheets, and other information directly to the community.

We partnered with churches, community groups, elected officials, aldermen in different wards, and asked them to get that information directly into the hands of residents in their neighborhoods.

A part of our average campaign in reaching directly to the customers included our bill inserts, which we started again in September. They continued throughout October. We'll continue in November, and each of those bill inserts has direct messages to customers on how to seek financial assistance, how to conserve energy, and how to enter

into payment plans with us.

We did letters to eligible customers, people who used LIHEAP in the past and were eligible again, and encouraged them to seek that assistance if they haven't already done so.

For the first time this year we targetted people who are living in buildings where their landlords did not pay their gas bill and, therefore, their building service has been turned off. This is something we haven't done in the past, talking directly to the tenants of those buildings. We did it by letter and through an Auto-Dial Program asking those tenants to take action to call the city and report those buildings so that inspectors could be sent out and then also encouraging them to keep receivership for those buildings so their bills could be paid, their gas could be turned on, and they would have heat this winter.

We have also reached out to the community. As I mentioned, we have attended numerous community events throughout the city. We were at all of the Department of Housing Affordable Neighbor

Expos. There are two more to come. We were at all of the Senior Fests, which attracted 30,000 seniors from the city, and we were also at the CAPs neighborhood assemblies, which are attracting thousands of people from around the city. These are held throughout the city and in various neighborhoods.

So we think we are touching customers throughout our base territory directly with community reps there who are prepared to answer questions on their particular account, if they had them, and help them to get into payment arrangements or, again, seek financial assistance, if that's what they needed, and we have done that and we will continue to do so.

We are continuing to work with the city Department of Buildings in targeting the landlord issue and we are working with the Department of Housing and Aging and Human Resources to get information into the hands of our customers to help them deal with this winter's heating issues. Thank you.

COMMISSIONER KRETSCHMER: Are you finished?

MR. SIERRA: Yes, with Peoples.

COMMISSIONER KRETSCHMER: I really appreciate hearing what you are doing, and I think that's one thing that perhaps the other companies might just touch on what you are doing to reach out to your customers.

Our next speaker is going to be Ted Lenart, Nicor Gas, the Assistant Vice President of Supply Operations.

PRESENTATION

BY

MR. LENART:

Good afternoon. Thank you for allowing us to be here today and let you know about what Nicor's doing relative to its planning for this coming winter.

I think a lot of what you are going to hear from me is going to be echoed what Bill has already talked about related to Peoples, but it's, nonetheless, worth stating.

My presentation today will talk first about sufficiency supply of winter planning, some of the risks that we look at in preparing our winter plan. I will talk a little bit about Nicor's storage and where we are in storage, and I'll touch on some consumer issues as well.

The next slide is our winter planning for the season, so this is looking at the winter months. The relevance of this slide is to show the impact storage has on our sales customers. Roughly 50 percent of our sendout sales customers come from storage. The white bars above are transport customers and the gas transport customers bring to our gates or they use their own storage that they lease from Nicor Gas or other parties.

The next plan -- the next slide shows the winter plan itself for both peak day and seasonal plan, and in the case of Nicor Gas, roughly 67 percent of our sendout is met from storage on peak day. On the season, roughly 45 percent of our sendout is met from storage, the other 55 percent comes from pipeline receipts.

As Bill mentioned, storage does play a significant role in mitigating price exposure in that we are not having to buy those volumes in the peak winter months.

Some of the planning issues that we deal with, we purchased most of our gas in producing areas. We do buy some at the city gate. We contract for transport on four different pipelines. Of that, we have about 1.8 BCF transport. We also buy city gate supplies from pipelines that we don't necessarily contract for capacity on.

We purchase baseload supplies, as well as swing supplies. We tend to use financial options to protect price exposure for the winter period. Those are in the form of caps and collars. We also protect for intra-month price volatility.

We find oftentimes the price volatility intra-month could be very significant, as we have seen in the recent past, and so we tend to protect that with both physical calls as well as financial calls.

When planning our peak day needs, we do look at one or two standard deviations throughout the normal winter and try to protect for pricing around those parameters.

We have already touched on the influence weather has on our sendout. Just to reiterate, the past two years in the winter of 2001-2002, the extraordinarily warm weather that was preceded by the previous winter, which was extraordinarily cold, so we have had two extremes really to deal with and the resulting prices that go along with that.

Some of the risks that we are concerned about as we look at this year is the risk that we have as supplier of last resort. Bill mentioned that we do rely upon -- just like Peoples, Nicor Gas does rely upon third parties that choose to arrange their own supplies and we simply deliver those volumes to them; however, if they fail, we have a supply of last resort obligation.

In our Choice Program, which is Customer Select, those customers may switch back to the utility at any time if their pipeline receipts don't show up.

The landscape of suppliers has changed dramatically the companies, such as -- very large companies, such as Aquila, PG&E, Reliant, and most recently Dynergy, have significantly scaled back or withdrawn from the market completely.

We understand that Dynergy is a major supplier to our Customer Select Program, as well as to many of our customers, and so we are carefully monitoring the supplier performance and we'll take appropriate actions if we see that they are failing; similarly, we watch our own suppliers very carefully. We have been very selective about who we contract with for our supplies for this coming winter.

Supplier credit has become a major concern. We are concerned about their credit and their ability to perform. They are concerned about our ability to perform as well. We are always searching for new suppliers and we have had to seek out new suppliers for this coming winter.

We have been asked a lot of questions that we haven't been asked before about our creditworthiness, and, in fact, in some cases, suppliers have intentionally limited the amount of business they do with us for concern of our credit worthiness, not necessarily that Nicor has any credit problems, but they're imagining their credit exposure by limiting their exposure by companies.

In looking at how the suppliers have changed in the next slide, fewer providers and less trading liquidity, the fewer suppliers have led to reduced liquidity in the marketplace and credit concerns throughout the marketplace has led to liquidity problems.

About 50 percent of our winter portfolio has been retraded since last year, as shown in the slide, whereas, last year roughly 79 percent of our supplies came from nonproducer sources. As we look at this winter, roughly 50 percent of our suppliers are coming from producer or producer affiliates.

One of the issues that we have in dealing with these new suppliers is that we are finding fewer are willing to sell swing supplies. Most of them are selling baseload supplies and the need for swing supplies is as great as it has ever been in helping deal with the weather volatility, and so that is one of the ways to reduce liquidity, puts more risk on us and, to the extent that we have to baseload more supplies, then we have to go out and sell those supplies to the exent that we wind up long in warmer than normal winter.

In terms of Nicor Gas' storage, the next slide shows a curve of our storage. I apologize if you cannot tell the lines apart, but I'll try to explain to you.

The lower line -- as you move forward to the right through the injection season, the lower line is a five-year average. The middle line is where we are this year. We are above the five-year average and very close to the top line, which is what we achieved last year.

So, as we sit here today, we are well above our five-year average in terms or storage field -- Nicor Gas' storage facilities and we are approaching an all-time high that we achieved last year.

As a consumer issue, Nicor Gas has been pro-active with our Energy Spotline bill inserts. The last three or four months we have been giving people information about what we are seeing in terms

of natural gas prices, also trying to explain to them some of the fundamentals that drive natural gas prices and also the fact that consumption this year will likely be greater than it was last year in a very warm winter. Our website also has a lot of gas cost information in there.

We do have a number of consumer programs. All of our customer do have choice. Our Customer Select program's available to all of our customers, so to the extent they want to contract with a retail supplier, other than Nicor Gas, they're free to do so.

We have been promoting our budget plan. Our budget plan now provides for a 12-month enrollment, so you can enroll any time during the course of the year. We have our sharing program administered through the Salvation Army and also we are promoting the LIHEAP program to our low income families.

In summary, supplier reliability's very important to us. We have taken a lot of steps this year to reassure ourselves that we have the highest quality suppliers we can find for our portfolio. We are watching our customers' suppliers very carefully to take appropriate steps if we see things start to deteriorate there.

Our extensive storage assets do a lot to mitigate our price risk in the winter and we are in a very dynamic market and things always change. Thank you.

COMMISSIONER HURLEY: If you don't mind, maybe I misheard you. Just toward the end of your presentation, you said that you are advising your customers that consumption will be greater in a warm winter. Were you talking about last winter or the upcoming winter?

MR. LENART: What I meant to say we are advising customers that the bills this year will be higher because consumption will be likely higher this year than last winter.

COMMISSIONER HURLEY: Because of weather conditions of last winter?

MR. LENART: Yes, sir.

COMMISSIONER KRETSCHMER: We'll next hear from Illinois Power. Shawn Shukar is vice president of

Energy Supply Management.

PRESENTATION

BY

MR. SHUKAR:

Thank you. Illinois Power appreciates this opportunity to discuss our Point of Purchasing Program and our preparation for supply.

As Nicor and Peoples have already indicated, much of what we focus on is around the reliable supply to our customers, and so when Illinois Power looks at the objectives for gas supply, the first thing is to ensure that we have supplies that will meet the worst case scenario that comes out through the winter. Secondary to that then is some stability around the price and low cost for our customers and, finally, an excellence in operations of service. We do that by ensuring that we not only have a diversity of supply but we have a diversity of transportation pipes to bring that supply into our customer areas.

Illinois Power has about 413,000 customers. Our average annual sales to our purchase

gas adjustment-type customers is about 52 Bcf, total throughput on our system is about 89 Bcf.

So you see, there's a significant amount of gas that flows over our system that is purchased by industrial-type customers, and we have about 8,300 milesof gas main and we serve about through 302 communities.

Going into the year, what we plan for is two things: One is to meet the peak day of the year and second thing is to meet the average or what we plan for the expected supply.

For the peak day, we look at the coldest day in the last 20 years and then we combine that with the last three years of usage information to come up with a forecast of our demand across the season.

As far as price forecast, we don't try to forecast price. We look at what the NYMEX and the prices that we receive from the marketplace, and then we will look to see what the impact is to our customers based on what the forward prices are and then the purchases that we have made in the

marketplace, and also what we have in our storage.

If you look on Slide 6, that indicates our portfolio of supplies that is designed for any peak day. As you can see from that chart, a significant portion of our supply is gas storage, whether it's company-owned, which is 314,000 MMBtu, or the lease storage, which is about 73,000. That makes up about significantly more than half of our supply for the peak day, then -- but, in addition, we have some supplies for peak day that are either capped or collared, so there's price mitigation, and then about 240,000 that are swing supplies to our customers.

The next chart shows our -- just historically how Illinois Power has seen customer loads and the heating degree days. In the last five years typically we have been below the average for the last 20 years, but the one year when prices did blow out was 2000-2001. As you can see, the demand was about what the average was for that period of time.

The next page shows the historical demand for our PGA customers across the full winter season, and, once again, typically our demand is below normal,

but when you have a very cold winter, you'll see it be above normal. What that means to Illinois Power is we have to plan for those very cold periods of time, but we also have to put our portfolio together in such a way than if it's warmer than normal that we are able to operationally manage the supplies to our customers.

For this upcoming season, what Illinois Power has done to provide reliable demand and protect against significant price swings, about a third of our overall storage of our overall supply for the year is in our gas storage and another third of it is through our Price Mitigation Plan, which includes caps and collars, and in the last third is supply that is based on market price, and that's typically gas daily supplies to the customer.

When we look at this year versus last year, Illinois Power's gas supply for our storage is slightly lower so that the gas that we have in the ground is slightly less -- it cost slightly less than what it did last year.

In addition, our Price Mitigation Program is slightly different than what we put in place last year. Last year we bought most of our fixed priced gas priced forward, and so the gas that we purchaseed was at a fixed price, and then going into the winter when the prices went much lower, we had bought earlier in the year and the price was higher than it ended up being on the spot markets.

What we have done for our gas this year is bought either caps, which limits the upside exposure, or collars, which keep you within a price range for the customers.

If you look on Slide 10, that shows graphically the different supplies that we plan on utilizing for our customers. As you can see, it's split up about a third, a third, and a third.

The next slide shows where we are at on gas storage inventory. We typically end up in mid-November have all of our gas storage facilities completely filled up. That is where we are currently planning to be this year. That's consistent with our historical plans with our gas storage, and right now we are on target to meet that goal.

I talked a little bit before about the

price of mitigation. We have three parts to our program, and to be certain that customers see both some limitation on price, but they also see price swings so they can react to those price swings, we have split up our portfolio with a third storage, a third in caps and collars, and a third from the index price.

All of our gas for the winter has been purchased or reservations have been made. One of the things that we have also seen is that there is fewer participants in the marketplace and there's also been significant issues around the creditworthiness, both of Illinois Power and of the suppliers, with gas out there.

We are currently, with the reservations that we have in place, satisfied with the financial viability and deliverability of that gas to our customers.

We'll skip past the next slide since the pricing has already been discussed. The anticipated customer impact of this year, because of the program we have put in place with the storage, and the caps and the collars, and the swing gas, and when we look at where the current forward prices are at, we expect the price or the PGA cost to our customers to be very similar to what our customers have seen in the 2001-2002 winter season.

What we expect to happen this year is, because the 2001-2002 winter was so mild, that our customers will use significantly more gas, somewhere between 10 to 15 percent more gas than what they did last year, so we are anticipating their bills will rise, but they will rise because of the increase of gas usage as opposed to increased price.

Now, obviously, if we have a very cold winter, the prices -- while we have some price protection, if prices increase significantly, our customers will see higher prices and greater usage, but if it's where the prices are currently at and with expected normal usage, their prices will increase 10 to 15 percent or their cost -- I'm sorry -- will increase 10 to 15 percent.

Last thing I would like to talk about is the customer education initiatives. Illinois Power has always tried to ensure that our customers are prepared for the winter.

Typically what we do is in the fall and early winter season we have press releases indicating to the customers that it is that time of the year. We need to be looking at -- customers should look at ways for to decrease their gas usage, weatherization programs, and things like that.

We also make our customers aware, as we have this year, of anything in the marketplace that we are aware of that may be impacting them, and we have a press release that has been released that indicates that we do expect their bills to go up because of increased usage.

We also make our customers aware of programs that can help, assistance programs for the customers, and two in particular, the LIHEAP Programs that were discussed and we all have a Warm Neighbors Program. That's a program that helps those customers who may not be able to helped by LIHEAP but who are still in need, and so it's a program that helps a larger base of our customers.

We also try to make our customers aware of the levelized payment plan so they can balance out their payments across the year. We do this through bill inserts and through our media releases and so going into the winter right now, we have sent out bill inserts and we have also had the press releases to hopefully make our customers aware of what's coming down the road, and we will continue to provide that information to our customers and hope that they'll be prepared for the upcoming winter. Thank you.

COMMISSIONER KRETSCHMER: Thank you.

And our last speaker is Scott Glaeser and he is from Ameren Energy Fuel & Services, Manager of Gas Supply and Transport.

PRESENTATION

BY

MR. GLAESER:

Thank you, Commissioner. Ameren appreciates the opportunity to talk about our gas supply preparation for this coming winter, not only as a gas supply utility, but also as a major generator of power in the midwest, and we feel that's a unique perspective on the power side of the storage of natural gas.

Turning to the second page of my presentation, to get right to the point, the AmerenCIPS LDC system of gas supply this coming winter, as of now we have 100 percent of our natural gas supply requirements for this winter purchased under firm contracts.

One unique thing about this winter that's changed since prior winters is a majority of the firm gas supplies is now coming from independent and major producers. Ameren's strategy in the past had balanced producers and marketers 50/50 roughly. That's changed significantly with the disappearance of a lot of these energy marketers in the natural gas market, so most of our gas supplies is coming from major and independent natural gas producers for this coming winter.

Our storage situation, our storage inventory levels are on target and we'll be making withdrawals by mid-November.

Turning to the next page, to give you an idea of our resource build (phonetic) for our peak design day, we have a peak design day for the Ameren system of just over 300,000 MBtu per day.

The key point I want to bring home here is that leased storage in our on-system storage resources provide more than half or firm deliverability on a peak design day. And if you look at the blue baseload gas supply, the baseload gas supplies in conjunction with the storage withdrawal provide the majority of gas supplies for customers in a similar time.

Turning to the next page, our storage situation for this winter, as of October 31st we will be at 11.146 Bcf of inventory out of 12.106 storage capacity, or appropriately 92 percent full. Our on-system storage fields are at 95 percent full.

We did lose some ground in September due to the Hurricanes, both Isadore and Lilli. We purchased a large amount of natural gas production offshore from the Gulf of Mexico. We lost a lot of this with Isadore and we lost all of that gas during Hurricane Lilli. Over five or six days we had no gas

supply on-shore, and that put our injection plan behind about two weeks. We made some adjustments to our plan and extended our injection season to make up ground, so by mid-November we should be ready and on target.

Our good news is our storage inventory or weighted average cost of gas, (WACOG), is very competitive compared to NYMEX futures strip for this winter, so our storage gas is well below market coming into this winter based on current conditions.

Turning to the next page, our price risk hedging strategy, we have increased our hedging strategy to a minimum of 75 percent of natural gas supply for a normal winter will be hedged in one form or another.

Our prior strategy was roughly two-thirds or 66 percent. We felt with some of the volatility and uncertainty in the marketplace, the war with Iraq, crude oil prices, the possibility of cold winter, we increase our strategy to 75 percent.

We had three primary methods to be used to hedge system supply. The major one was storage inventory at fixed WACOG. The second one is physical gas supply at fixed prices or costless collars, and the final one is financial swaps from the over-the-counter markets. These are financial institutions, like Morgan Stanley, Bank of America, Goldman Sachs, that we buy our financial instruments to overlay physical gas supply contracts to control prices.

Storage provides for half of our natural gas supply during a normal winter and that is a key component. We go into the winter, that storage is held under our title at a fixed price. We know what the price is. We control the deliverability so it's a most secure and stable form of gas supply for an LDC.

Finally, financial swaps. One of the major reasons we are looking at financial markets is not to lock in prices but to spread our credit risk. As everyone in this room knows, there's a lot of credit uncertainty with different marketers and producers out there. Using financial swaps allows us to mitigate our credit risk with financial institutions that have a very high level of credit.

Turning to the next page, this gives an idea of the overall portfolio for the winter. Where the blue, part of the graph is hedged gas supply. The red represents our storage withdrawals, and yellow is our market-priced gas supply.

One key point is that all of this gas supply is either from storage under firm agreements with producers, none of it is bought on the spot market during the November-to-March time frame.

When we plan for a normal winter, it cost us 57 percent over normalized winter demand storage, 32 percent is hedged gas supply, and 11 percent is market price gas supply. The key draft is on the right-hand side under maximum winter we expect most price volatility and the highest level usage.

As you can see with our demand growing, our storage, our hedge supplies become diluted and our market price of gas becomes a bigger portion of our portfolio, but we design that roughly a third is priced at market, 45 percent is storage, and 24 percent is hedged, so that graph is kind of a key graph for how we design our system for extreme winter

events and extreme price events.

The next page are experience and natural gas supply availability. What we found in the past year after meltdown was companies like Aquila, Williams, CMS Energy, Dynergy, natural gas supply is available but there's significant less trading and structure products being offered.

The marketers would really -- I guess the creative ones push a lot of these highly-structured gas supply products. A lot of that's disappeared. It's come back to the plain vanilla gas supply with producers. That's the majority of our gas supply.

Credit issues have become a very high priority, not only on the supply side, but demand side. They're looking at us. We are looking at them. Everybody's trying to spread the list around, so it's a big game of watching everybody else's credit.

Again, our strategy -- we push our strategy in the direction of purchasing our physical gas supply from independent major gas producers and increasing our utilization of financial instruments and non-hedging price risk and diversifying our credit risk.

Turning the page to consumer awareness, we do try to educate our customers on what may happen this winter. Just in the past two months, September and October, we conducted 20 media interviews talking about natural gas issues, including supply issues, weatherization tips.

We have also sent letters to 50 LIHEAP agencies, both Missouri and Illinois, warning of higher -- potential higher gas prices and giving those agencies the materials they need on making payment arrangements for their customers, billing programs, and low income assistance (Ameren Dollar More Program) where we give donations from both companies and other customers.

We also have issued media releases and weatherization tips trying to control the demand side of the equation, and on the budget billing side, right now 454,000 customers, that's electric and gas, out of our 1.5 million customers are signed up for a billing budget this winter.

COMMISSIONER HURLEY: Signed up?

MR. GLAESER: Already signed up.

Turning to the next page, I'm going to talk about gas-fired generation a little bit. This is kind of a hot topic with price volatility.

Ameren has been and is one of the leading builders of new generation capacity in the midwest, primarily Missouri and Illinois. We have constructed 2,200 megawatts of capacity since 2000 -- Year 2000. This new capacity is primarily fueled with natural gas. Some of our plants are new plants and do have fuel backup but their main fuel source is natural gas.

Of course, the question is asked why natural gas? Why are you building natural gas-fired plants? And the bottom line is because we can. These plants can be built in 18 months versus coal or nuclear. Coal we estimate would take five, six, maybe seven years to build a coal plant, because of permitting issues and environmental issues. Nuclear plants we don't know if we can get that done basically. Natural gas plants are also environmentally clean. They're efficient and they're low noise.

The picture to the right is actually a picture of our Elgin Energy Center, which is being built in Elgin, Illinois, a suburb of Chicago. Those are Seaman (phonetic) Westinghouse turbine units. They're high efficiency. They're low noise and we can build them right in Elgin and meet all the noise permits and emission permits in this area.

Just to give you an idea, those large structures, the ones painted white in the left-hand side, those are sound-dampening mufflers. Those mufflers -- those turbines cost $1 million a piece. That's some of the commitment to making sure these turbines are environmentally-sensitive to the area.

Turn to the next page, this is a draft of our constructed capacity since 1999. Basically, our build program started in the Year 2000 and has wrapped up (sic) significantly in 2001 and this year.

The point I'm trying to make here is that our bill program is basically over for the time being. We have constructed over 2000 megawatts of capacity. Our forecast for the next two years is going to keep it flat at that so -- and this has come true with some of the other independent power generators in the midwest. The construction boom for gas-fired generation has kind of leveled off right now.

Turn to the last page on my presentation, this gives an idea of what that structure has done for fuel consumption for generation. Typically prior to our bill program we were utilizing about 2 Bcf for peaking units. Now by 2002, we'll be over 13 Bcf, and by 2004 we'll be about 17 Bcf for natural gas-fired generation. We probably won't see that leveled off for a couple of years.

And that concludes my presentation.

COMMISSIONER KRETSCHMER: Thank you very much. I would like to ask all of you to send to our Consumer Affairs Division a brief history of what you have done to-date to notify your customers about what may happen and also any future communications you have with your customers, whether it be in print or letters, if you send them copies that way it makes it much easier for our Consumer Affairs Division to know what's going on.

COMMISSIONER HURLEY: How much do you tell customers -- you say what may happen. Obviously, you are here talking to the Commission today and we don't know what's going to happen.

MR. SHUKAR: Well, basically, we warn that their volumes, just their volumes alone, they should see higher volumes and higher bills compared to last year with the same PGA rates.

COMMISSIONER HURLEY: That's what you were saying.

MR. SHUKAR: Then we also warn that PGA rates may increase as well. In Missouri we just follow winter PGA rates and they're about 10 percent higher than they were over the summer.

COMMISSIONER HURLEY: I'm sorry.

COMMISSIONER KRETSCHMER: That's all right.

Before we go into general questions, we do have a new chairman and I think this is your first or second gas policy meeting, and I heard the word polar, and, you know, that's always a sort of key word, because it means that you are the provider of last resort, and that's a tough job.

I can recall a few years ago when some of the gas that your customers were suppose to have delivered didn't get delivered and so we had a mini crisis, so I wondered if perhaps we could give the Chairman, and refresh my memory, and Commissioner Hurley and Commissioner Squires' memory how you go about ensuring that customers who should have gas delivered should not have to depend on you and then the gas doesn't arrive. How do you handle that? Any one of you can try it.

MR. LENART: I'll speak up first. I guess I --

COMMISSIONER KRETSCHMER: If you would get close to the microphone so they can hear you in Springfield, get right on top of it.

MR. LENART: What we have done in the past to increase the effort has been to watch the nominations coming in from the suppliers and they're serving our transport customers, as well as our Customer Select Program, to make sure those supplies are meeting our requirements.

In the case of Customer Select, we have certain requirements, and there's a threshold around which they can move, but there's a minimum required that they have to deliver to our city gate. And if we see that they're not delivering those volumes, then we will take steps to either certainly contact them, but, in the worst case, we'll terminate that pool, bring those customers back to the utility, and move on, and then take appropriate steps from the supply perspective to go out and make sure we have added supplies to cover those needs.

COMMISSIONER KRETSCHMER: Do you cover those needs and you are going out to buy additional gas? Do you use rolled-in price or incremental?

MR. LENART: Rolled-in.

COMMISSIONER KRETSCHMER: You roll it in? Is that fair to the customers who have let you know that they are going to be using your gas? Why don't you charge them incremental what it cost you to get it?

MR. LENART: I'm not well enough versed in -- to be able to speak to that. I just believe that without -- I think in their case if a supplier fails on them, all I know is that Nicor Gas has the right and the need to provide them the service and right now we just have one PGA mechanism. We don't have a --

COMMISSIONER KRETSCHMER: The argument could be made that your sales customers are subsidizing those customers whose gas fails to arrive and that could be a substantial amount. If the issue arises, I will remind you all of that again. Okay.

Peoples?

MR. MORROW: Certainly another way that I think all of us address it in some respects is that we monitor what customers are planning to deliver through our nominations system, which are all pretty extensive in each company.

We also have the ability through our tariffs to, as we begin to see a rapid fallout, to call an operation in a critical day, which does impose some pretty significant penalties, which has provided enough incentive for customers to bring the necessary volumes to the marketplace. It's a tool we don't like to use that often, because it doesn't make us very popular, but it does treat our ratepayers and sales customers very fair by imposing a much higher price on those who aren't delivering that should be.

COMMISSIONER KRETSCHMER: I agree. I recall we did that and Indiana got angry because all the gas came here and didn't go to Indiana.

Illinois Power, what do you do if some of your supplies doesn't arrive from your customers?

MR. SHUKAR: Well, as Peoples and Nicor indicated, we monitor very closely through the nominations, and the first thing we do if we see something that's happening with nominations that look out of kilter, we'll contact the customer and try to get it straightened out before anything happens.

If the customer then does not bring the gas in, as provider of last resort we have to meet the system need and so we utilize whatever resources we have for what we can purchase from the market to meet the supplies and then that passes through on whatever rate they're on. There are some penalties if they get outside bands, and so it's different for each customer that brings it in under the different rates.

COMMISSIONER KRETSCHMER: And Ameren?

MR. GLAESER: We are a little bit unique. None of our potential customers transport their own natural gas, as per our tariffs, so our transporter is strictly industrials and large commercials for the most part.

If a transport customer fails to deliver gas, all our transportation customers in Illinois have a bank for storage for about 10 days of storage. We'll pull from that storage bank until it's completed. Once the storage is completed, then we'll make a determination as can we handle them on system supply or not. If we have adequate resources to handle them on system supply, we then sell them system supply at PGA rate, plus a percentage adder.

If we determine we cannot handle them, we then charge them unauthorized takes, and that's at a penalty rate I believe from 10 to $15 Btu. And if they still take gas under those provisions, we then -- and if they threaten system integrity, we'll then go out and physically cut them off the system.

COMMISSIONER KRETSCHMER: An aggressive program.

Commissioner Hurley?

COMMISSIONER HURLEY: No.

COMMISSIONER KRETSCHMER: I have got a few more as long as I got you all here.

Ameren, you are building an awful lot of peaker plants.

MR. GLAESER: Yes.

COMMISSIONER KRETSCHMER: Are they going to be profitable as the price of gas goes through the roof?

MR. GLAESER: Well, that's a good question.

(Laughter.)

Ameren's unique in that we operate the peaker plants in isolation. We operate these plants as part of our generation fleet, which includes nuclear coal-based blow units, hydro units, and natural gas units, so we don't operate as a peaking plant to make money on their own, which is a very tough way to make a buck in this market. We operate them to enhance the value of our entire fleet.

To give you, for example, what that means, we may build peaking plants to allow more sales to third parties, like large industrials.

To give you an example, Archer-Daniel-Midland is a large industrial customer for us. We have the capacity to supply ADM with our peaking units, but the majority of the power that we sell to them is from coal, so the peaker allows us to get more utilization off our coal units and our hydrofacilities so we don't just rely on peaking to make a buck. That's tough in this market, which is a very low-priced market.

COMMISSIONER KRETSCHMER: You know, I've been around for a long -- I can recall when Ameren had a lot of excess power. In buying CILCO, I can recall when they had 35 percent excess power.

Is all this generation you are building being used by your service territory or are you sellng outside of your service territory?

MR. GLAESER: It's a combination. It's for sales to third parties, like unions, and coops, and industrials, and it's for sale to utilities operating --

COMMISSIONER KRETSCHMER: Who's building the transmission lines or the transmission pipes to get from where you want it to go?

MR. GLAESER: There is an issue of transmission trend showing up on the grid and we are basically addressing some of those constraints with our CILCO acquisition. We are looking at building some additional transmission facilities.

COMMISSIONER KRETSCHMER: You don't expect your ratepayers to pay for this transmission?

MR. GLAESER: I'm not sure how -- that's outside my area of expertise.

COMMISSIONER KRETSCHMER: Well, you know, my suggestion is that if you are selling out by your service territory, I'm going to be watching like a hawk.

MR. GLAESER: Fair enough.

COMMISSIONER KRETSCHMER: Storage plays a big part in all of your operations. On a sustained cold spell, let's say five weekdays, could you handle that without any problem or would you have a problem if you had to rely on your own storage fields? And let's say there was a freeze off in Texas or in the Gulf. Can you handle five solid cold days with your storage? Anybody?

MR. MORROW: Five solid cold days or five peak days?

COMMISSIONER KRETSCHMER: Five cold days.

MR. MORROW: Five cold days?

COMMISSIONER KRETSCHMER: Five really cold days and they're Monday, Tuesday, Wednesday, Thursday, Friday.

MR. MORROW: Certainly we have the ability to sustain that depending upon what else happened in the flowing supply picture. Even though we do rely on storage for 63 percent on peak day, that number might start to ratch down on cold days. We still have a reliance on pipeline flowing supply either the customers bring it on their behalf or purchase it nearby as well, so we would have to watch very carefully where supply and interruptions might occur.

Again, as I mentioned, here in Illinois has eight interstate pipelines that come into this area. We would be seeking any other means to route gas around the interrupted area to get it to our marketplace. I think we have more than enough capacity to serve those particular days.

COMMISSIONER SQUIRES: Commissioner Kretschmer --

COMMISSIONER KRETSCHMER: Yes.

COMMISSIONER SQUIRES: -- I would like to ask a short follow-up question to what you just asked.

COMMISSIONER KRETSCHMER: Certainly.

COMMISSIONER SQUIRES: Last year when we were talking, I think it was around the summertime or fall -- and this is for anybody -- when we were talking about storage capacity, it was indicated that the capacity that you had for storage was about 50 percent of what you would actually need. Now today I've heard the term 90 to 95 percent in storage and ready to go.

So am I hearing that 90 to 95 percent of the 50 percent or 95 percent of the total amount needed?

MR. GLAESER: I think she's referring to my numbers. Ninety-five percent is storage inventory where we are at compared to maximum storage capacity.

COMMISSIONER KRETSCHMER: Of a hundred percent?

MR. GLAESER: Of a hundred percent, yes. Fifty to 55 percent of daily storage to meet my peak design day.

COMMISSIONER SQUIRES: Thank you.

COMMISSIONER KRETSCHMER: I just have another question for Chris McGill.

In your presentation you talked about why the market can get tight and why there should be a sufficient supply, and I'm wondering -- you didn't mention the rig count, and it's down from last year and I wondered if that -- when that's going to be -- when it's going to go up and what will cause the producers to dig it out.

MR. McGILL: Rig count is a key indicator of this supply capability and production capability.

Going back about four years now back to 1998 when we had less than $2 for natural gas at the well head, we had national gas rig counts fall below 400 rigs operating. The peak that we had in July of 2001 we saw over a thousand gas rigs operating, that is drilling and completing gas wells. Today the number has bounced around in the last few months in the 7 to 800 rig range, so it is certainly much higher than it was at the low point when we lost a great deal of deliverability in the market because of the slowdown. It's not where the peak was.

In general, when we look at maintaining and growing supplies, the rig count we see now, 7 to 800 rigs operating, is what we look for. The question of where you go beyond that is where are they drilling. And if that rig activity is in existing fields, you are not discovering new gas. You are just adding a little deliverability to the total market, and that sustains itself for awhile, and technology helps you do that, too, but ultimately you need to go to newer places where you can refresh the resource process, have some upside potential to what you drill for.

So, as you are pointing out, clearly the number of rigs operating is a key indicator. The other element is where are they drilling, and the close-end drilling has been really that's been best and most of what we have seen over the last three-to-four years.

COMMISSIONER KRETSCHMER: I have heard any number of producers suggest that unless they get new fields because of the bell curve -- they don't call it a bell curve. I call it that -- a bell curve operation of a well that starts out -- a new well starts out with a curve going up, and then levels off, and then goes down, and they're saying that unless we get into some new areas, we are going to have to have more and more wells drilled in order to just to keep even.

MR. McGILL: That treadmill is the treadmill that the producers talk about in the terms having to run very, very fast to stay in place, and it's very true, so there are two elements. You drill more. You drill with the technology you have, or you go to new places, and I'll make an example.

Currently, I guess you would say one of the newest gas development areas in North America is eastern Maritime of Canada. We have offshore development in Canada, significant gas discoveries. What tends to happen geologically over time is that when hydrocarbons are present, when oil and gas are present, you tend to find more than you originally estimate technology and it helps us get more out of the ground. That's what I mean by refreshing. It adds an upside to developing oil and gas. That is going on in the eastern Meritimes of Canada. It is not happening in the United States, yet, we have watched the oil and gas development in eastern Canada go from the Hibernia area marching south to where now the Sable (phonetic) Island project that provides gas to New England, as well as to each new candidate, is virtually on our border; however, the Atlantic offshore is taboo for drilling currently, so the new areas Commissioners, they are a necessity and certainly as we go back and look in time when you give producers the opportunity to drill, they take the risks and they go there and they do that, and we have discoveries made. Finding those new areas to drill are part of the key problem right now.

COMMISSIONER KRETSCHMER: Could you discuss just -- I'm giving the Chairman all this information so he'll come back next time I have a gas policy meeting.

Can you give us just a brief overview of the new technology, the horizontal drilling, and some of the new technology that's being done to minimize the impact of drilling in an area.

MR. McGILL: They are extremely blessed. You can go to the offshore Gulf of Mexico, for example, where discharge from the platforms for environmental reasons are excruciatingly controlled.

In fact, many platforms in the offshore area in the

Gulf of Mexico catch the rain water that falls on them and it's processed and perhaps even taken away from the platform, by platform and offshore.

That's an extreme example, but the drilling techniques that we see now, slim hole drilling, horizontal drilling, all of these things that make drilling --

COMMISSIONER KRETSCHMER: What's horizontal drilling? I read somewhere it's six miles.

MR. McGILL: Dave Parker of the American Gas Association uses this example. He said if there were hydrocarbon potential underneath the District of Columbia that you could drill it all from a two-acre drilling site, that is you can drill vertically, you can drill in virtually any direction, and the horizontal drilling allows the well board to actually travel through the reservoir for many, many feet, yards, howe ever you want to put it, and allows you to access that reservoir as opposed to the old fashion standard vertical well that only penetrated a small part of the reservoir.

All of those technologies are helping

producers produce more gas more quickly, however, that is also one of the things that leads to the treadmill that they're on. If you get out of the ground more quickly, you have to go find the next well more quickly, and with the price roller coaster we have been on and rig count, as you pointed out, going up and down, you can address deliverability very quickly, but you can have it fall off quickly also if you are not drilling your wells.

COMMISSIONER KRETSCHMER: Well, I think we have seen an error when our producers are just sort of sitting back, paying off their bills and aren't really ready to go out into the fields, unless they see a price margin that they can live with.

MR. McGILL: Again, the activity today is not that bad. It's not as bad as it was four years ago, but it's not as good as it was two year ago.

COMMISSIONER KRETSCHMER: If there are no other questions, I want to thank you very much. You have given us a great deal of information and a lot of things to think about, and I wish you well for this coming year.

I know you all hope for cold weather. If you get cold weather, I hope you will have the right supplies at the right price, so thank you very much. I appreciate it.

CHAIRMAN WRIGHT: And thank you, Commissioner Kretschmer, for a very interesting and enlightened gas policy meeting.

COMMISSIONER HURLEY: Thank you.

COMMISSIONER KRETSCHMER: We are adjourned.

(Whereupon, the above matter was adjourned.)